

July 7, 2005

Questions for Public Comment on Selected Major Policy Issues, Options and Decisions Facing California

Basic Electricity Policy Objectives

California faces a number of complex, interrelated issues in ensuring a reliable, low-cost and diversified electricity supply. While the workshop will focus on specific policy issues and questions, it is worthwhile keeping in mind the broad set of inter-related policy objectives when developing comments. The broad objectives of electricity policy include the following:

- Ensure reliability of supply
 - Availability (adequate resources to meet demands even under adverse conditions)
 - Deliverability (the ability to deliver the supply to the demand – timing and geography)
 - Diversity (risk management – consider technology, fuel, and geography)
- Ensure affordability of supply
 - Least cost, integrated planning and procurement
 - Managing cost uncertainty of gas and electric supply
 - Economically efficient market mechanisms
- Achieve public interest objectives in supply
 - Maximize use of preferred technologies
 - Minimize environmental impacts
 - Participate effectively within broader regional energy markets

Questions for Public Comment on Selected Policy Issues, Options, and Decisions Facing California

Comments are requested from interested parties which focus upon key policy issues that either cross-cut and/or are not fully examined within other workshops of the IEPR.

Generation Resource Issues

What is required to ensure access to adequate generation within the context of the complex structure of California's and the West's mixed market, geography, and procurement rules?

1. What existing policies (electric, gas, environmental, other) most hinder the timely development of new electric generation within the State? For example, there is over 8,000 Mw of permitted but not built generation. How should policies be modified?

2. Does the current 15-17% reserve margin:
 - Provide adequate margin? Should California be using 1-in-10 year, 2-in-5 year, or standard deviation criteria to establish load levels? Are region-specific reserve levels required? Does this meet our reserve needs in light of the aged generation supplying a portion of that reserve? What criteria should be used to adaptively determine the appropriate level of reliability as we go forward?
 - Adequately consider the role of transmission expansion for meeting reliability goals?
 - Represent an economically sustainable level of reserves?
3. Can, and how should, the current IOU procurement approaches be modified to:
 - Provide adequate long-term incentives for building new generation capacity? Is there an appropriate balance between incentives, or ability, to procure on a long-term versus short-term basis?
 - Is the term “least-cost/best-fit” sufficiently transparent in resource procurement to allow its meaningful application by policy-makers and various stakeholders? Should the concept be more clearly defined?
 - Provide more incentive for use of new technologies over old? Do the current approaches to procurement for supply and local area reliability (particularly when combined with RMR) inappropriately extend the life of older plants and hinder financing of new plants/technologies?
 - Diversify resource portfolios. How much diversity is required? How should the benefits of diversity be valued? Should there be a maximum share of generation that is based on natural gas? How can resource diversity best be maintained within current procurement and planning processes?
 - Ensure that renewable resources and other preferred resources are truly incorporated into the portfolio in accordance with the “loading order” preferences? Do current and proposed resource adequacy and deliverability requirements pose challenges for preferred resources in the EAP “loading order,” including efficiency, demand response, and renewable resources?
 - To what extent would capacity markets resolve these resource adequacy and diversity issues?
4. What is the role of coal by wire in the State’s resource mix? Are there minimum environmental requirements that should be met for coal by wire? What technology risk does the state incur if best available technology is required?
5. Is there a risk of a loss of significant generation with the upcoming expiration of the QF contracts? What is the likely disposition of these generation sources if contracts are not extended? What supply would replace these contracts if they are not extended? What process and terms would maximize the economic and reliability benefits of extending these contracts or replacing them with other supply sources?
6. What State policies are required to ensure adequate natural gas infrastructure to support electricity supply, including consideration of LNG supplies, gas transmission

and gas storage? Is the gas infrastructure adequate for reliably meeting natural gas supply needs in dry hydro years? Are there gas deliverability standards that should be promulgated similar to those for electricity transmission?

7. The evolution of the electric system over the past decade has added considerable price volatility exposure to consumers. What policies and options are appropriate for best managing this consumer price risk?

Transmission

An adequate transmission infrastructure is essential to provide economical and reliable supply to California electricity customers.

1. Would a more robust transmission system be more effective in improving reliability considering economics, limits on market power, flexibility, and environmental issues? What is the hedging value of spare electric transmission capacity?
2. In some respects, the current IOU resource procurement guidelines de-link supply procurement decisions from transmission investment decisions. Are there ways to better integrate transmission and resource supply decisions in the context of IOU procurement planning and solicitation processes? Does internalizing the costs of transmission upgrades to individual generation projects result in sub-optimal decisions?
3. Have IOUs been under investing in transmission? IF so, what is required to ensure appropriate levels of investment are made on an ongoing basis?
4. How can the tension between the objectives of (a) minimizing costs, (b) improving reliability, and (c) flexibility, be reconciled when considering transmission upgrade/expansion opportunities and decisions?.
5. Once new transmission projects are sited and approved, are mechanisms required to ensure that they are undertaken and completed in a timely manner?
6. What is the best approach to finance/pay for the reliability (and possible market efficiency) aspects of major transmission expansion projects?
7. The CAISO has released a deliverability baseline study recommending that all generation be considered fully deliverable, thus shifting all deliverability issues to incremental resources added after 2006. Does this adequately address the deliverability issue with respect to resource adequacy?